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FOR IMMEDIATE RELEASE:

Washington Investors To Receive Restitution

Waddell & Reed, Inc. agrees to pay \$700,000; settles charges relating to variable annuity exchanges

OLYMPIA, WA – An estimated 400 Washington investors may benefit from a multi-state settlement with national brokerage firm Waddell & Reed for unlawful sales practices. Washington's share is approximately \$700,000 as announced today by the Department of Financial Institutions (DFI) and the Office of the Insurance Commissioner (OIC). Waddell & Reed, headquartered in Overland Park, Kansas, markets variable annuity contracts.

Between January 2001 and August 2002, Waddell & Reed exchanged thousands of variable annuity contracts issued by United Investors Life Insurance Company for a purportedly similar product provided by another company. Waddell & Reed initiated the exchanges after failing to reach an agreement with United over fees collected from Waddell & Reed's customers.

The NASD, the securities industry's self-regulatory organization, filed a complaint against Waddell & Reed, alleging that exchanges were unlawful and the replacement contracts, provided by Nationwide Insurance Company, were not suitable for many of the investors.

"Brokerage firms should not recommend exchanging a variable annuity contract unless they have determined it is in the best interests of a customer," said Scott Jarvis, Director of DFI. "We will continue to work in cooperation with the Insurance Commissioner to investigate sales practice abuses related to variable annuities. Firms engaging in such practices will certainly hear from us," continued Jarvis.

Although the annuities are considered securities and regulated by DFI, the agents and brokers who sell them also must be licensed by the OIC.

"This story certainly has a happy ending for these investors," declared Insurance Commissioner Mike Kreidler, "but it also should serve as fair warning to everyone who markets these products that consumer protection is a priority, and we expect agents and brokers to fulfill their responsibilities."

Under terms of the national settlement with NASD and state regulatory authorities, Waddell & Reed will repay more than 5,000 customers nationwide up to \$11 million in surrender charges. Approximately 400 Washington customers who paid surrender charges as result of the contract exchanging will be reimbursed. While neither admitting nor denying the allegations, Waddell & Reed also agreed to pay a fine of \$5 million to NASD and a fine of \$2 million to state regulators.

“We encourage customers to think carefully and ask questions before purchasing or exchanging a variable annuity. Many factors, including potential surrender charges and other costs, should be considered,” cautioned Michael Stevenson, Director of DFI's Securities Division.

What is a variable annuity?

A variable annuity is a contract under which the insurer agrees to make periodic payments to a customer, either immediately or at some future date. Variable annuities typically offer a variety of investment options in mutual funds. The products involve risk, as the value of a variable annuity depends on the performance of the investment options chosen by the customer.

For more information, you may contact DFI www.dfi.wa.gov, or OIC www.insurance.wa.gov.
View the Consent Order at www.dfi.wa.gov/sd/orders/orders2005.htm.

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